

Abstract

Efficiency of the Monetary Transmission Mechanism in Croatia

RESEARCH PAPER

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This paper analyzes the efficiency of monetary policy transmission through channels of exchange rate, money stock and interest rate on real economic activity and prices in Croatia. Methodology is based on the vector error-correction model (VECM) and Johansen's cointegration. The results indicate a long-run relation between monetary policy measures on one side and real economic activity and price levels on the other. The strongest long-run channel of monetary transmission is the exchange rate channel, while the channel of money stock is slightly weaker. The results also show an impact of the interest rate channel, which was not the case in earlier studies analyzing its impact on real economic activity.

Keywords: monetary transmission mechanism, VECM model, Johansen's cointegration, Croatia

JEL classification: C22, E31, E42, E43, E5

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